

Lines 66a and 66b— Earned Income Credit (EIC)

What Is the EIC?

The EIC is a credit for certain people who work. The credit may give you a refund even if you do not owe any tax.

To Take the EIC:

- Follow the steps below.
- Complete the worksheet that applies to you or let the IRS figure the credit for you.
- If you have a qualifying child, complete and attach Schedule EIC.



If you take the EIC even though you are not eligible and it is determined that your error is due to reckless or intentional disregard of the EIC rules, you will not be allowed to take the credit for 2 years even if you are otherwise eligible to do so. If you fraudulently take the EIC, you will not be allowed to take the credit for 10 years. See Form 8862, Who must file, on page 50. You may also have to pay penalties.

Step 1 All Filers

- If, in 2005:
 - 2 children lived with you, is the amount on Form 1040, line 38, less than \$35,263 (\$37,263 if married filing jointly)?
 - 1 child lived with you, is the amount on Form 1040, line 38, less than \$31,030 (\$33,030 if married filing jointly)?
 - No children lived with you, is the amount on Form 1040, line 38, less than \$11,750 (\$13,750 if married filing jointly)?

☐ **Yes.** Continue ☐ **No.** You cannot take the credit.
- Do you, and your spouse if filing a joint return, have a social security number that allows you to work or is valid for EIC purposes (see page 50)?

☐ **Yes.** Continue ☐ **No.** You cannot take the credit. Put "No" on the dotted line next to line 66a.
- Is your filing status married filing separately?

☐ **Yes.** You cannot take the credit. ☐ **No.** Continue
- Are you filing Form 2555 or 2555-EZ (relating to foreign earned income)?

☐ **Yes.** You cannot take the credit. ☐ **No.** Continue
- Were you a nonresident alien for any part of 2005?

☐ **Yes.** See *Nonresident aliens* on page 50. ☐ **No.** Go to Step 2.

Step 2 Investment Income

- Add the amounts from Form 1040:

Line 8a _____
 Line 8b + _____
 Line 9a + _____
 Line 13* + _____

Investment Income =

*Do not include if line 13 is a loss.

- Is your investment income more than \$2,700?

☐ **Yes.** Continue ☐ **No.** Skip question 3; go to question 4.
- Are you filing Form 4797 (relating to sales of business property)?

☐ **Yes.** See Form 4797 filers on page 50. ☐ **No.** You cannot take the credit.
- Do any of the following apply for 2005?
 - You are filing Schedule E.
 - You are reporting income or a loss from the rental of personal property not used in a trade or business.
 - You are reporting income on Form 1040, line 21, from Form 8814 (relating to election to report child's interest and dividends).

☐ **Yes.** You must use Worksheet 1 in Pub. 596 to see if you can take the credit. To get Pub. 596, see page 7. ☐ **No.** Continue
- Did a child live with you in 2005?

☐ **Yes.** Go to Step 3 on page 48. ☐ **No.** Go to Step 4 on page 48.

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Step 3 Qualifying Child**A qualifying child is a child who is your...**

Son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your grandchild, niece, or nephew)

AND**was ...**

Under age 19 at the end of 2005

or

Under age 24 at the end of 2005 and a student (see page 50)

or

Any age and permanently and totally disabled (see page 50)

AND**who...**

Lived with you in the United States for more than half of 2005.

If the child did not live with you for the required time, see *Exception to "time lived with you" condition* on page 50.

*If the child was married, see page 50.*

1. Look at the qualifying child conditions above. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2005?

☐ **Yes.**

You cannot take the credit. Put "No" on the dotted line next to line 66a.

☐ **No.** Go to question 2.

2. Do you have at least one child who meets the conditions to be your qualifying child?

☐ **Yes.** Continue →

☐ **No.** Skip the next two questions; go to Step 4, question 2.

3. Does the child meet the conditions to be a qualifying child of any other person (other than your spouse if filing a joint return) for 2005?

☐ **Yes.** See *Qualifying child of more than one person* on page 50.

☐ **No.** This child is your qualifying child. The child must have a valid social security number as defined on page 50 unless the child was born and died in 2005. Skip Step 4; go to Step 5 on page 49.
Step 4 Filers Without a Qualifying Child

1. Look at the qualifying child conditions in Step 3. Could you, or your spouse if filing a joint return, be a qualifying child of another person in 2005?

☐ **Yes.**

You cannot take the credit. Put "No" on the dotted line next to line 66a.

☐ **No.** Continue →

2. Can you, or your spouse if filing a joint return, be claimed as a dependent on someone else's 2005 tax return?

☐ **Yes.**

You cannot take the credit.

☐ **No.** Continue →

3. Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2005?

☐ **Yes.** Continue →

☐ **No.**

You cannot take the credit.

4. Was your home, and your spouse's if filing a joint return, in the United States for more than half of 2005? Members of the military stationed outside the United States, see page 50 before you answer.

☐ **Yes.** Go to Step 5 on page 49.

☐ **No.**

You cannot take the credit. Put "No" on the dotted line next to line 66a.

Continued from page 48

Step 5 Earned Income

1. Are you filing Schedule SE because you were a member of the clergy or you had church employee income of \$108.28 or more?

☐ **Yes.** See *Clergy or Church employees*, whichever applies, on this page. ☐ **No.** Continue

2. Figure earned income:

Form 1040, line 7

Subtract, if included on line 7, any:

- Taxable scholarship or fellowship grant not reported on a Form W-2.
- Amount received for work performed while an inmate in a penal institution (put "PRI" and the amount subtracted on the dotted line next to Form 1040, line 7).
- Amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan (put "DFC" and the amount subtracted on the dotted line next to Form 1040, line 7). This amount may be shown in Form W-2, box 11, or in Form W-2, box 12, with code Z. If you received such an amount but it is not reported on Form W-2, contact your employer for the amount received as a pension or annuity.

Add all of your nontaxable combat pay if you elect to include it in earned income. Also enter this amount on Form 1040, line 66b. See *Combat pay, Nontaxable* on this page.

+ _____



Electing to include nontaxable combat pay may increase or decrease your EIC. Figure the credit with and without your nontaxable combat pay before making the election.

Earned Income =

3. Were you self-employed, or are you filing Schedule SE because you were a member of the clergy or you had church employee income, or are you filing Schedule C or C-EZ as a statutory employee?

☐ **Yes.** Skip question 4 and Step 6; go to Worksheet B on page 52. ☐ **No.** Continue

4. If you have:

- 2 or more qualifying children, is your earned income less than \$35,263 (\$37,263 if married filing jointly)?
- 1 qualifying child, is your earned income less than \$31,030 (\$33,030 if married filing jointly)?
- No qualifying children, is your earned income less than \$11,750 (\$13,750 if married filing jointly)?

☐ **Yes.** Go to Step 6. ☐ **No.** You cannot take the credit.

Step 6 How To Figure the Credit

1. Do you want the IRS to figure the credit for you?

☐ **Yes.** See *Credit figured by the IRS* on page 50. ☐ **No.** Go to Worksheet A on page 51.

Definitions and Special Rules

(listed in alphabetical order)

Adopted child. An adopted child is always treated as your own child. An adopted child includes a child lawfully placed with you for legal adoption even if the adoption is not final.

Church employees. Determine how much of the amount on Form 1040, line 7, was also reported on Schedule SE, line 5a. Subtract that amount from the amount on Form 1040, line 7, and enter the result in the first space of Step 5, line 2. Be sure to answer "Yes" to question 3 in Step 5.

Clergy. The following instructions apply to ministers, members of religious orders who have not taken a vow of poverty, and Christian Science practitioners. If you are filing Schedule SE and the amount on line 2 of that schedule includes an amount that was also reported on Form 1040, line 7:

1. Put "Clergy" on the dotted line next to Form 1040, line 66a.
2. Determine how much of the amount on Form 1040, line 7, was also reported on Schedule SE, line 2.
3. Subtract that amount from the amount on Form 1040, line 7. Enter the result in the first space of Step 5, line 2.
4. Be sure to answer "Yes" to question 3 in Step 5.

Combat pay, Nontaxable. If you were a member of the U.S. Armed Forces who served in a combat zone, certain pay is excluded from your income. See *Combat Zone Exclusion* in Pub. 3. You can elect to include this pay in your earned income when figuring the EIC. The amount of your nontaxable combat pay should be shown in Form(s) W-2, box 12, with code Q. If you are filing a joint return and both you and your spouse received nontaxable combat pay, you can each make your own election.

Credit figured by the IRS. To have the IRS figure the credit for you:

1. Put "EIC" on the dotted line next to Form 1040, line 66a.
2. Be sure you enter the nontaxable combat pay you elect to include in earned income on Form 1040, line 66b. See *Combat pay, Nontaxable* on page 49.
3. If you have a qualifying child, complete and attach Schedule EIC. If your EIC for a year after 1996 was reduced or disallowed, see *Form 8862, Who must file* below.

Exception to "time lived with you" condition. A child is considered to have lived with you for all of 2005 if the child was born or died in 2005 and your home was this child's home for the entire time he or she was alive in 2005. Temporary absences for special circumstances, such as for school, vacation, medical care, military service, or detention in a juvenile facility, count as time lived at home. Also see *Kidnapped child* on page 21, if applicable. If you were in the military stationed outside the United States, see *Members of the military* below.

Form 4797 filers. If the amount on Form 1040, line 13, includes an amount from Form 4797, you must use Worksheet 1 in Pub. 596 to see if you can take the EIC. To get Pub. 596, see page 7. Otherwise, stop; you cannot take the EIC.

Form 8862, Who must file. You must file Form 8862 if your EIC for a year after 1996 was reduced or disallowed for any reason other than a math or clerical error. But do not file Form 8862 if either of the following applies.

1. After your EIC was reduced or disallowed in an earlier year (a) you filed Form 8862 (or other documents) and your EIC was then allowed, and (b) your EIC has not been reduced or disallowed again for any reason other than a math or clerical error.
2. You are taking the EIC without a qualifying child and the only reason your EIC was reduced or disallowed in the earlier year was because it was determined that a child listed on Schedule EIC was not your qualifying child.

Also, do not file Form 8862 or take the credit for the:

- 2 years after the most recent tax year for which there was a final determination that your EIC was reduced or disallowed due to reckless or intentional disregard of the EIC rules, or
- 10 years after the most recent tax year for which there was a final determination that your EIC was reduced or disallowed due to fraud.

Married child. A child who was married at the end of 2005 is a qualifying child only if (a) you can claim him or her as your dependent on Form 1040, line 6c, or (b) this child's other parent claims him or her as a dependent under the rules for children of divorced or separated parents.

Foster child. A foster child is any child placed with you by an authorized placement agency or by judgement, decree, or other order of any court of competent jurisdiction.

Members of the military. If you were on extended active duty outside the United States, your home is considered to be in the United States during that duty period. Extended active duty is military duty ordered for an indefinite period or for a period of more than 90 days. Once you begin serving extended active duty, you are considered to be on extended active duty even if you serve fewer than 90 days.

Nonresident aliens. If your filing status is married filing jointly, go to Step 2 on page 47. Otherwise, stop; you cannot take the EIC.

Permanently and totally disabled. A person who, at any time in 2005, cannot engage in any substantial gainful activity because of a physical or mental condition and a doctor has determined that this condition (a) has lasted or can be expected to last continuously for at least a year, or (b) can lead to death.

Qualifying child of more than one person. If the child meets the conditions to be a qualifying child of more than one person, only one person can take the EIC based on that child. The other person(s) cannot take the EIC for people without a qualifying child, but may be able to take the EIC based on a different qualifying child. If you and the other person(s) cannot agree who will take the EIC based on the same child, the IRS will apply the following rules.

- If only one of the persons is the child's parent, the child will be treated as the qualifying child of the parent.
- If both persons are the child's parents, the child will be treated as the qualifying child of the parent with whom the child lived for the longer period of time during 2005. If the child lived with each parent for the same amount of time, the child will be treated as the qualifying child of the parent who had the higher adjusted gross income (AGI) for 2005.
- If none of the persons is the child's parent, the child will be treated as the qualifying child of the person who had the highest AGI for 2005.

The child must have a valid social security number as defined below unless the child was born and died in 2005. If you do not have a qualifying child, stop; you cannot take the EIC. Put "No" on the dotted line next to line 66a. If you have a qualifying child, skip Step 4; go to Step 5 on page 49.

Example. You and your 5-year-old daughter moved in with your mother in April 2005. You are not a qualifying child of your mother. Your daughter meets the conditions to be a qualifying child for both you and your mother. If you and your mother cannot agree on who will treat your daughter as a qualifying child, the rules above apply. Under these rules, you are entitled to treat your daughter as a qualifying child because you are the child's parent. Your mother would not be entitled to take the EIC unless she has a different qualifying child.

Social security number (SSN). For the EIC, a valid SSN is a number issued by the Social Security Administration unless "Not Valid for Employment" is printed on the social security card and the number was issued solely to apply for or receive a federally funded benefit.

To find out how to get an SSN, see page 16. If you will not have an SSN by April 17, 2006, see *What If You Cannot File on Time?* on page 12.

Student. A child who during any 5 months of 2005:

- Was enrolled as a full-time student at a school, or
- Took a full-time, on-farm training course given by a school or a state, county, or local government agency.

A school includes a technical, trade, or mechanical school. It does not include an on-the-job training course, correspondence school, or night school.

Welfare benefits, Effect of credit on. Any refund you receive as a result of taking the EIC will not be used to determine if you are eligible for the following programs or how much you can receive from them. But if the refund you receive because of the EIC is not spent within a certain period of time, it may count as an asset (or resource) and affect your eligibility.

- Temporary Assistance for Needy Families (TANF).
- Medicaid and supplemental security income (SSI).
- Food stamps and low-income housing.